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## BRANCH BANKS AND OUR FOREIGN TRADE

BY WILLIAM S. KIES,

Of the National City Bank of New York.

Forty English banks operating in foreign countries have 1,325 branches; in South America, five German banks have forty branches and five English banks have seventy branches.

The South American foreign banks and their branches are active agencies for the promotion of trade relations between the South American republics and the home countries. These banks have entered actively into the industrial and economical lives of the communities in which they are located. They have furnished money for the development of the resources of these countries; have financed railroads, harbor works, public utilities and warehouses. They have been instrumental in building up markets at home for the raw materials produced by South America, and have in this manner established a basis for a reciprocal exchange of products. The money of England and Germany has been freely invested in the future of these countries. England and Germany have put into Argentine, Brazil, and Uruguay, in the last twenty-five years, approximately four thousand million dollars, and as a result enjoy together 46 per cent of the total trade of these three countries.

Of course these investments do not represent money taken from the capital of the banks, but the investments of the people of England and Germany in South American securities. A ready market has existed in Europe and on the Continent for South American bonds and stocks, and capital for development projects has been heretofore obtained with little difficulty. Germany has been able to do her share in the constructive work of upbuilding South America because of the effective aid of an almost paternal government, which has worked hand in hand with the commercial and financial interests of the empire for the development of German commerce. German investors have been taught that the prosperity of the country depended upon the development of foreign markets and have felt secure in their investments, knowing that the power of the

German empire would be exerted in the protection of contracts entered into in foreign lands.

England's position as a world power is in the largest measure due to the development of her foreign commerce. She has not only been the world's largest carrier and ablest merchant, but at the same time its greatest banker. England has loaned money in all parts of the world whenever she has been able to see trade returns as a result of the loan. Through her system of English-owned foreign banks, with their branches, she has ever been ready to finance the needs of countries whose raw materials could be used by her factories, and whose people in return could be converted into customers for her manufactured products.

England is the world's greatest market because in it there have always been found buyers for all the various products the nations of the world have had to sell. Should market conditions for particular products be unfavorable, a system of warehouses is at hand for the storage of the goods, and the owner can always borrow on his warehouse receipt, enabling him to hold his goods for a more opportune moment for their sale.

England's preëminence as a world financial market has been due largely to the services performed by the English "acceptance houses," and to the existence of an active discount market for bills of exchange on London originating in all parts of the world. The pound sterling is the common denominator of values throughout the commercial world. Exchange on London has been the means of settlement of transactions in international commerce for years, with a resultant large profit to the English bankers, who levy, in this manner, a tribute upon the commerce of the world.

The "acceptance" is a financial expedient until recently almost unknown in this country. The difference between the method in effect here and in Europe is that commercial transactions have been heretofore financed in this country by notes, and in Europe by bills of exchange. The one is an unsalable investment; the other a prime quick asset. Credit resources of American banks have been strictly limited to the amount of their real assets. European banks, on the other hand, have been in a position to maintain a contingent liability far in excess of this limitation by accepting and transferring bills of exchange. The services performed by the

London bill are not over-estimated by an article in the *London Economist*, printed just prior to the war, which reads:

The bill on London is the currency of the world. It is the only currency of the world. It represents gold but it is better than gold, and is preferred to gold because transferrable with greater rapidity, greater ease, greater certainty, and infinitely less risk of loss. It has therefore become the universal world currency, which, and which alone, the producer and handler of all nations will accept as wholly satisfactory and sufficient. There is nothing like it elsewhere. No such function is performed by a bill on Paris, on Berlin or on New York.

Prior to the passage of the Federal Reserve Act, national banks were not allowed to extend their credit, through the medium of the acceptance, to importers and exporters; neither were there any provisions in our national banking laws permitting the establishment of branches of American banks in foreign countries. There were likewise no national laws under which banks might be organized to operate in foreign countries under the authority and supervision of the United States government. Under the laws of some of the states, banking corporations could be organized with power to operate outside of the boundaries of the United States; but the fact that foreign banks, organized with large capital and well-developed systems of branches, were so thoroughly entrenched in South American and other countries, made the success of American banks problematical, if organized under other than national auspices. Then, too, a large amount of capital was needed in the organization of such branches; and it must be remembered that the United States itself is a borrowing nation, and has been a free user of the surplus capital of Europe in its own development.

The Federal Reserve Act, however, has made it possible for branches of national banks to be established in foreign countries, and to place back of the branches the prestige and resources of the parent bank. The Federal Reserve Act contains a further important provision of greatest value to the future development of our commerce. Section 84 is as follows:

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run; but no banks shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section 82 of the act provides for the rediscount of such acceptances, based on the importation or exportation of goods, which have a maturity at time of discount of not more than three months, when indorsed by a member bank.

Acting under the provisions of Section 25, of the Federal Reserve Act, in regard to foreign branches, the National City Bank of New York has established branches at Buenos Aires, in the Argentine Republic, and at Rio Janeiro and Santos, in Brazil. The Federal Reserve Board has granted permission for the establishment of a West Indian branch, with a main office at Havana, and sub-branches at various points in Cuba, the island of Jamaica, and San Domingo. The authority for the opening of the branch at Rio Janeiro carried with it permission to operate sub-branches at Santos, Para, Pernambuco, Bahia, and Sao Paulo. The Buenos Aires branch was opened on November 10, 1914. The branches at Rio de Janeiro and Santos will be opened early in April.

The immediate effect of the opening of the branch at Buenos Aires of most value to the commercial interests of the United States was the establishment on a permanent basis of dollar exchange in the Argentine. The close financial connection of the Argentine with Europe, particularly with England, has in the past worked to the disadvantage of the merchants of this country seeking to do business with Argentine. Dollar exchange has not always been available, and the usual method of settlement has been in pounds sterling by drafts on London. Theoretically, at least, two exchanges entered into every transaction between merchants of this country and those of South America; first from the local currency into pounds sterling, and then from the pounds sterling into dollars. In transactions heretofore, our merchants were at a disadvantage, for the risk of fluctuations in the exchange market had to be assumed by them. Through the operation of branches of American banks, there will hereafter exist in South America, a ready market for dollars, and it may be reasonably expected that the sight draft in dollars, payable in New York, will, to a large extent, supplant the London bill as a medium of settlement for our commercial transactions with South America.

The establishment of dollar exchange in the financial markets of South America on a permanent and attractive basis will be materially aided by the acceptance provisions of the Federal

Reserve Act. By reason of the fact that national banks are privileged to accept bills of exchange drawn upon them, growing out of transactions involving the importation or exportation of goods, there will grow up in New York a discount market for such accepted bills. There is no more convertible form of security than the promise of a national bank of first class standing to pay a sum of money at a certain definite time, when that promise is further secured by merchandise, the proceeds of the sale of which are, at the end of the specified period, to be applied by responsible merchants to the liquidation of the debt. Such short-term paper constitutes the most liquid of assets, and will be greatly in demand by banks, trust companies, and others seeking a safe, short-term investment. With the development of a discount market of substantial proportions, New York will be in a position to take its proper place as an international money market, a consummation that will contribute materially to the commercial growth and financial prestige of this country.

The importance of the new source of credit which will be placed at the disposal of American manufacturers, exporters and importers, by the acceptance features of the Federal Reserve Act, may be appreciated when it is considered that the combined capital and surplus of all the national banks in the United States, in June last, was \$1,781,000,000; and of the New York City banks alone \$237,705,000. National banks, under a recent amendment to the Federal Reserve Act, may now, by authority of the Federal Reserve Board and under their regulation, accept bills up to the full amount of their capital and surplus. With the growth of a discount market, trust companies and state banks will undoubtedly avail themselves of the acceptance method of using their credit, and still further increase the facilities for financing our foreign trade.

The establishment of branches of American banks in foreign countries, will result in giving to the American merchant that form of personal representation which can only be supplied by a bank of his own nationality. In doing business in foreign countries, many days distant by the nearest mail, numerous difficulties frequently arise in the closing of transactions, in the collection of drafts, and in disputes over shipments, in the settlement of which the American manufacturer is at an entire disadvantage. At times these difficulties are so serious as to discourage his efforts in the

development of an otherwise promising field. The knowledge that his interests are in the hands of a bank which is deeply concerned in the development of the foreign commerce of his country, is satisfying and assuring, and offers an inducement to the American manufacturer to put forth his very best efforts for the extension of his trade.

Realizing that South America, to a great many merchants of this country, has been as a closed book, and that a great deal of information was needed concerning market possibilities, and the technical requirements of exporting to South America, the National City Bank has provided a commercial representative upon the staff of each of the branches it has established. The commercial representative's duties will comprehend the doing of trade promotion work in the interest of manufacturers of the United States. It will be his work to study in a thorough and comprehensive manner the opportunities in foreign markets for the products of our factories and workshops, and cultivate personal acquaintances among the business men of the country in which he is situated, so that he will be in a position to give to American salesmen the personal introductions which are so valuable in foreign countries. He will supervise technical investigations into the possibilities of a market for a particular product, so that manufacturers in this country will be able to ascertain the price at which their goods can be sold in a foreign market, the cost of delivery to the market, the supply on hand, the manner in which the particular articles must be packed and prepared for the market, and the finish and quality desired, and the character of the competition to be met. Samples of foreign competitors' goods can be collected by the commercial representative when desired and forwarded to the home exporter for purpose of comparison. When disputes occur in regard to shipments, or information is needed concerning any particular transaction, or a confidential investigation of some question is desired, the commercial representative will be available for this work.

In addition to conducting investigations into commercial conditions and possibilities, the branch banks will of necessity be obliged to establish bureaus for the collection and dissemination of credit information.

The question of the extension of credit, particularly in Latin America, is one that has heretofore presented a seemingly insur-

mountable obstacle to many United States firms desiring to enter the South American field. The long credits which have been customarily granted by German and English business houses have discouraged a great many of our merchants. The fact that collections would have to be entrusted to foreign banks, and the feeling that somehow or other, at such a distance, there were greater possibilities of loss than at home, have contributed to the discouragement. While the large mercantile agencies of this country have for a number of years maintained successful branches in South America, and have been in a position to give credit information, yet the average business man has, in his domestic dealings, been accustomed to receive in addition to mercantile agency reports, bank opinions upon the credit of concerns which sought to do business with him. Branch banks, through their credit departments, will be able to supplement the work of the mercantile agencies, and give to American manufacturers the benefit of their judgment upon the credit standing of business houses engaged in foreign trade.

Credit data, prepared in duplicate, and kept on file in the credit department of the parent branch, will furnish a reliable source for ready credit information for the benefit of American business houses. In time, too, as American branches grow into the industrial and economic life of the countries in which they are established, local merchants may be induced to form such relations with the branches as will enable commercial credits to be opened in their behalf, so that the branch banks may be able to accept drafts drawn against shipments of American manufactured articles destined for foreign markets. In this manner the credit of the branch may be used to directly facilitate the importation of American products, contributing materially to the solution of the long-credit problem.

In order to build up a profitable and lasting commerce in hitherto untouched markets in foreign countries, it will be necessary for us to aid in the development of those countries. Brazil, Colombia, Argentine, Chile, Peru, and other of the South American republics have natural resources of greatest value awaiting development. If in the years to come the United States shall invest its surplus capital in the upbuilding of South America along the same lines which govern the investment of European countries in that field, trade opportunities will result which will show a return to us of many times the original investment.



The American investor, however, must be educated to an understanding of the necessity and desirability of investing money in foreign countries whose markets we seek to cultivate. He must appreciate the fact that an extensive foreign trade will contribute greatly to the general prosperity of his country. He must learn to realize clearly that the successful extension of our foreign trade is predicated not only upon the development of reciprocal trade relations, but equally so upon the free investment of capital for the development of the resources of the countries whose patronage we are anxious to obtain. Branch banks will be able to assist materially in the investigation of desirable openings for capital investment, and in directing such investments along lines where they will be productive of most good to our commercial interests.

A rare combination of circumstances now favors us. The business ties between other great nations whose commercial intercourse has long been reciprocal and friendly have been sundered at the very moment of the creation of the machinery so badly needed for building up of our foreign commerce. Considering the fundamental readjustments in trade relations between many nations that are bound to result from the conflict now raging, the opportunity presents itself to this country to construct in the next few years a lasting foundation for a profitable foreign commerce of large proportions.

Whether history shall record that this nation successfully and intelligently grasped the opportunity, and measured up to the responsibilities of the situation, will depend entirely upon the willingness of our people to scientifically and intensively study conditions, and the problems connected with foreign trade; upon their resourcefulness in adapting themselves to the requirements of foreign markets; upon their ready development of an international viewpoint; upon their aptitude in appreciating the national characteristics and susceptibilities of foreign nations; upon their tact and diplomacy in the cultivation of the foreign field, and upon that which is of most importance, the degree of coöperation which shall be developed among those who are actively interested in the movement for expanding our foreign trade.